

**SOUTH CAROLINA
DEPARTMENT OF SOCIAL SERVICES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 5, 2019

Mr. Michael Leach, State Director
South Carolina Department of Social Services
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Social Services (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than: \$10,000 related to the operating leases reporting package, \$175,000 related to the accounts payable reporting package, and \$5,000 related to all other reporting packages.

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Department of Social Services (L04)****Cash Receipts/Revenues**

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 – Earmarked Fund, \$1,000,000 – Federal Fund, and 10%.

Finding:

During our comparison of revenue changes between fiscal years 2018 and 2017, we identified client history information profile adjustment activity, of approximately \$2.3 million, that was miscoded to the incorrect accounts receivable refund general ledger account 4520020005, rather than the correct food stamp recovery account 4280050000.

Management's Response:

Management agrees with this finding. The monthly CHIP adjustment entry is normally posted to general ledger account 4280050000; however, for one month during the fiscal year it was incorrectly posted to general ledger account 4520020005. Management has discussed this with staff that process the monthly entry, and the Senior Accountant has begun reviewing the trial balance monthly to look for any material variances in all accounts. The General Ledger Manager will also monitor this account to ensure that monthly postings are consistently being applied correctly.

Cash Disbursements/Non-Payroll Expenditures

2. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 – General Fund, \$3,000,000 – Earmarked Fund, \$4,000,000 – Federal Fund, and 10%.
3. Randomly select twenty non-payroll disbursements transactions (excluding transactions from general ledger account 5110010000 – client payments) and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Determine that disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

Finding:

During our comparison of expenditure changes between fiscal years 2018 and 2017, we observed fiscal year end 2018 journal entries used to add capital project expenditures to the appropriate asset under construction were not properly capturing and recording costs related to the earmarked fund for a project.

Management's Response:

Management agrees with this finding. Fiscal year 2018 was the first year that the State appropriated funds for the Child Support Enforcement Project into an earmarked fund. Staff responsible for capturing and recording costs related to the project simply followed the procedures from the prior fiscal year, which did not include capturing any earmarked funds. This was an oversight and the agency has changed its year-end procedures so that all costs related to capital expenditures will be captured, regardless of funding source.

Payroll

4. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 – General Fund, \$3,000,000 – Earmarked Fund, \$4,000,000 – Federal Fund, and 10%.
5. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
6. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
7. Haphazardly select fifteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
8. Haphazardly select fifteen employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
9. Haphazardly select ten bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

Payroll (Continued)

Finding:

For one of the selected bonus payments, the Department was unable to provide adequate supporting documentation or evidence of proper Department approval. Upon further research it was discovered that the \$750 bonus payment related to the employee's previous employer, which was another State agency, and a retroactive correction was made that improperly recorded the payment to the Department. The Department failed to identify and correct the posting error.

Management's Response:

The finding notes that the bonus payment related to the employee's previous employer. Management does not agree that the Department should be responsible for providing the support or having proper approval in instances where other state offices or systems have sole control over the transactions that are subject to error. In the future, however, the Department will work with SCEIS and/or the Comptroller General's Office to identify a report that can be run monthly to identify any payroll postings that have been made by someone other than DSS in error, so they can be corrected timely.

Journal Entries

10. Haphazardly select fifteen journal entries for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

Finding:

For two of the transactions selected for detailed inspection, we observed that the posted journal entry amounts did not agree with the transaction's supporting documentation. For one of the transactions, the purpose of the journal entry was to adjust \$9,945 of attorney fees to the correct cost center. For the other transaction, the purpose of the journal entry was to adjust the Federal grant number related to \$535 of State-owned leased vehicle transactions. However, in both cases, the Department inadvertently debited and credited the same incorrect cost center or grant from the original entry.

Management's Response:

Management agrees with this finding. An entry to reverse the first document and to correctly move the expenditures from the incorrect grant to the correct grant has been completed. The debit and credit cost center on the entry for the second document should have been reversed. The staff that prepared both entries are no longer with the agency. The General Ledger Manager now reviews and approves every journal entry through SCEIS workflow to ensure the entry is appropriate before posting.

Reporting Packages

11. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

Reporting Packages (Continued)

12. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg – Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year-end reconciliations, as applicable.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Rptg – Inventory report and/or Department records. In addition, determine if the Department's calculation of inventory was properly completed by math-checking Department prepared records and recalculating / confirming the June 2018 ending balance for a total of fifteen individual inventory items.

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Rptg – Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select ten prepaid expense transactions to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) the effective dates, and future minimum lease payments of five haphazardly selected operating leases; (2) five haphazardly selected contingent rental payments; and (3) a total of five haphazardly selected lease payments from the remaining lease categories listed on the package. Determine if package responses are reasonable / accurate based on inspection of applicable supporting documentation.

- Accounts Payable Reporting Package

Determine if reported payable amounts are reasonable/accurate based on agreement of reporting package totals to the SCEIS Yearend Rptg - Prior Year Payables with Vendor, SCEIS Inter-Agency Prior Year Payables with Vendor Business Warehouse reports and/or Department prepared records. In addition, haphazardly select ten payable transactions to determine if reported amounts were properly identified, classified, and reported on the reporting package.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payable transactions from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original Accounts Payable Reporting Package submission.

Finding:

As a supplemental supporting schedule to the subsequent events questionnaire, the Department prepared and submitted a schedule of payroll payments due to employees after the July 16th pay date. Upon inspection of the schedule, we determined that the Department improperly included and reported approximately \$51,000 of payroll payments on the schedule.

Management's Response:

Management agrees with this finding. The error originated with a misunderstanding by staff as to the parameters that should be applied when running the report used to prepare the schedule in question. This was followed by failure of other staff to detect that the report contained a greater population of transactions than was appropriate. Staff have now been trained on properly producing and filtering the information correctly.

Composite Reservoir Accounts

13. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
14. Obtain fiscal year monthly reconciliations for each composite reservoir account, haphazardly select two reconciliations from each account, and perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented within a month of month-end, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
 - Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.
15. Haphazardly select and inspect a total of ten composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

Composite Reservoir Accounts (Continued)

16. Haphazardly select and inspect a total of ten composite reservoir account disbursements to determine if the disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were recorded in the proper fiscal year, were paid in conformity with State laws and regulations, and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Internal Audit Reports

17. Haphazardly select and inspect seven of the Department's internal audit reports related to fiscal year 2018 for items related to the engagement.

We found no other matters related to our agreed-upon procedures.

Acumatica Transactions

18. Haphazardly select thirty cash receipt transactions from Acumatica and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to Acumatica.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.
19. Haphazardly select thirty disbursement transactions from Acumatica and inspect supporting documentation to determine:
 - Transaction invoice(s) agree(s) with Acumatica general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - Determine that disbursements are recorded in the proper fiscal year.

Findings:

Acumatica Deposit Timeliness

Two of the thirty selected cash receipt transactions, totaling \$9,905, were not deposited in a timely manner in accordance with Proviso 117.1 of the Appropriation Act.

Acumatica Disbursements

For two of the thirty transactions selected for inspection, there was inadequate documentation provided to support the amounts disbursed. One involved the calculation of a cost sharing payment for \$74,761 and the other involved a \$4,725 return of funds to a client. We also observed two other transactions involving independent living funds that were disbursed in excess of the amounts specified from the Department's approval letter, for a total of approximately \$2,800.

Acumatica Transactions (Continued)

Management's Response:

Management agrees with these findings. Although some of the staff involved in approving and executing those transactions are no longer with the agency, these instances indicate a continuing need for increased monitoring, training and other remedial action. The two disbursements of independent living funds beyond the approved amounts suggest the need for closer program staff oversight of those transactions.

In July 2018 Financial Services management issued a directive that counties upload into Acumatica the supporting documents for every transaction they post. Going forward, management will reiterate and enforce this expectation and use this system feature to routinely sample transactions and provide relatively immediate responses to departures from established procedures and controls. Management believes these measures will yield substantial improvement in adherence to policies and procedures.

As a result of the excess independent living payments noted, management has begun meeting with program staff to reassess the current county-level approach to disbursement of these funds. Management will continue this reassessment, which is likely to lead to increased state office program staff monitoring and control over county activities, or to complete reassignment of responsibility for those activities to state office program staff.

Capital Assets

20. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
21. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet to determine that each asset was approved for removal, and proper documentation supports the retirement in accordance with the CG's Reporting Policies and Procedures Manual.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

22. Select all three controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedure.

Appropriation Act

23. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
24. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable. The agreed-upon provisos are: 38.1, 38.4, 38.7, 38.15, 38.16, 38.17, & 38.25.

We found no exceptions as a result of the procedures.

Status of Prior Findings

25. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedure.